Fannie Mae and Freddie Mac in Conservatorship: Frequently Asked Questions

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Summary

Fannie Mae and Freddie Mac are chartered by Congress as government-sponsored enterprises (GSEs) to provide liquidity in the mortgage market and to promote homeownership for underserved groups and locations. They purchase mortgages, guarantee them, and package them in mortgage-backed securities (MBSs), which they either keep as investments or sell to institutional investors. In addition to the GSEs' explicit guarantees, investors widely believe that MBSs are implicitly guaranteed by the federal government.

In 2008, the GSEs' financial condition had weakened and there were concerns over their ability to meet their obligations on $1.2 trillion in bonds and $3.7 trillion in MBSs that they had guaranteed. In response to the financial risks, the federal government took control of these GSEs in a process known as conservatorship as a means to stabilize the mortgage credit market. The GSEs accepted going into conservatorship, and Treasury agreed to provide up to $200 billion each to keep them solvent.

The GSEs agreed to pay Treasury a 10% cash dividend on funds received. If the GSEs do not have sufficient cash, they can pay Treasury a 12% dividend in special stock. Dividends were suspended for all other stockholders. If the GSEs had enough profit at the end of the quarter, the dividend came out of the profit. When the GSEs actually did not have enough cash to pay their dividend to Treasury, they asked for additional cash to make the payment instead of issuing additional stock. In August 2012, the 10% dividend was replaced with a "profit sweep" dividend. Under the profit sweep, Treasury received all of the profits above a declining capital reserve, but if there was no profit, there was no dividend.

The GSEs have paid dividends totaling $246 billion to Treasury. The majority of this sum—$191 billion—has been paid under the profit sweep. Paying the federal government all profits earned in a quarter prevents the GSEs from accumulating funds to redeem the senior preferred stock, which is held only by Treasury.

The GSEs have not taken a draw on their support from Treasury since the second quarter of 2012.

Congressional interest in Fannie Mae and Freddie Mac has increased in recent years, primarily because of the federal government's continuing conservatorship of these GSEs. Uncertainty in the housing, mortgage, and financial markets has raised doubts about the future of the enterprises and the potential cost to the Treasury of guaranteeing the enterprises' debt. Since more than 60% of households are homeowners, a large number of citizens could be affected by the future of the GSEs. Congress exercises oversight over the Federal Housing Finance Agency (FHFA), which is both regulator and conservator of the GSEs, and is considering legislation to shape the future of the GSEs.

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What Are Fannie Mae and Freddie Mac?

Fannie Mae and Freddie Mac are stockholder-owned, government-sponsored enterprises (GSEs), which purchase existing mortgages and pool the mortgages into mortgage-backed securities (MBSs), which they guarantee will be paid on time. The GSEs either keep the MBSs as an investment or sell the MBSs to investors. Their congressional charters give the GSEs a special relationship with the federal government, and it is widely believed that the federal government implicitly[1] guarantees their $808 billion in bonds and $4.6 trillion in MBSs.[2] Their charters give these GSEs special public policy goals aimed at providing liquidity in the mortgage market and promoting homeownership for underserved groups and locations.

In 2008, the GSEs' financial condition had weakened, and there were concerns over their ability to meet obligations. On September 7, 2008, the Federal Housing Finance Agency (FHFA) took control of these GSEs from their stockholders and management in a process known as conservatorship. The Housing and Economic Recovery Act of 2008[3] (HERA) specifies that as conservator, FHFA has the right to operate the GSEs. HERA specifies:[4]

> (D) Powers as Conservator—The [Federal Housing Finance] Agency may, as conservator, take such actions as may be—
>
> (i) necessary to put the regulated entity in a sound and solvent condition; and
>
> (ii) appropriate to carry on the business of the regulated entity and preserve and conserve the assets and property of the regulated entity.

In certain circumstances these two powers can conflict. For example, if a GSE were placed in conservatorship because of a "violation of any law or regulation ... that is likely to ... weaken the condition of the regulated entity,"[5] it might be relatively simple to come into compliance and quickly leave conservatorship. In contrast, a more fundamental problem might take longer and lead to conflicts between quickly ending conservatorship by returning a GSE to stockholder control and the GSEs' charters, which require them to support the mortgage market.

Congressional interest in Fannie Mae and Freddie Mac has increased in recent years, primarily because the federal government's continuing conservatorship of these GSEs has raised doubts about their future and concerns about the potential cost of supporting them. Congressional interest has been reflected by the introduction of bills to reform or replace the GSEs and by oversight hearings. Other reasons for congressional concern include the large role that the GSEs and government-guaranteed mortgages (such as those guaranteed by the Federal Housing Administration) play in the overall mortgage market and Treasury's contract to purchase up to $200 billion in special senior preferred stock from each GSE.

[1] The government has a contractual obligation to provide Fannie Mae and Freddie Mac with financial support, but the bonds and MBS themselves are not directly guaranteed by the federal government.

[2] Fannie Mae, *Monthly Volume Summary: December 2015*, Tables 1 and 7, http://www.fanniemae.com/portal/about-us/investor-relations/monthly-summary.html; and Freddie Mac, *Monthly Volume Summary: December 2015*, Tables 4 and 5, http://www.freddiemac.com/investors/volsum/.

[3] P.L. 110-289

[4] P.L. 110-289 §1145.

[5] P.L. 110-289 §1145.

This report presents, in analytical question and answer form, the major issues surrounding Fannie Mae's and Freddie Mac's financial conditions, and various public policy options under discussion. A glossary of terms is included at the end of this report.

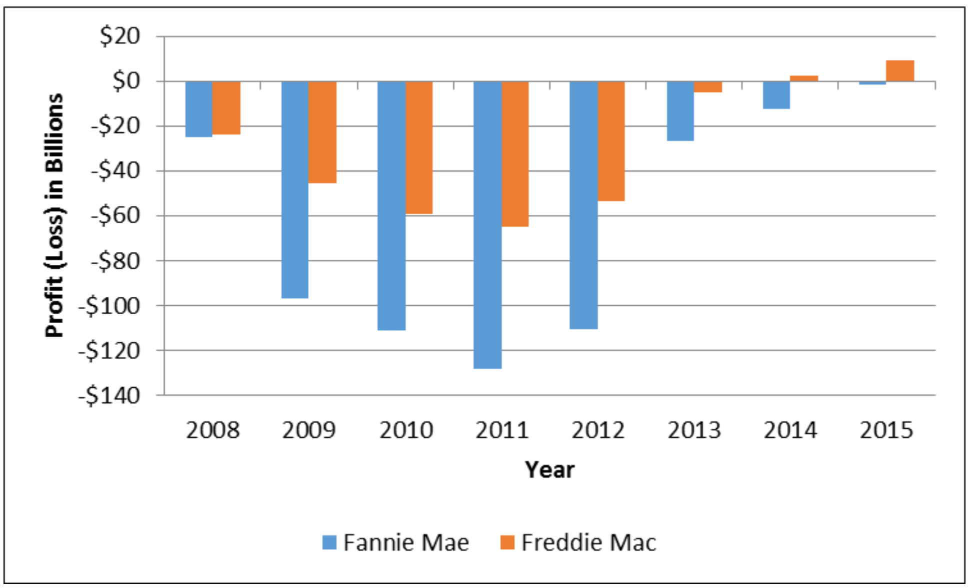
Present

How Profitable Are Fannie Mae and Freddie Mac?

Since Fannie Mae and Freddie Mac went into conservatorship in September 2008, Fannie Mae has reported a cumulative loss[6] of slightly less than $1.7 billion, while Freddie Mac has reported a cumulative profit of slightly more than $9.0 billion (see **Figure 1**). Both have reported annual profits since 2012. In 2015, Fannie Mae showed an $11 billion annual profit, and Freddie Mac showed an annual profit of $6 billion.

Figure 1. Fannie Mae and Freddie Mac: Cumulative Profit (Loss)

While in Conservatorship



Source: Fannie Mae and Freddie Mac Form 10-K filings with the Securities and Exchange Commission, available at http://edgar.sec.gov/.

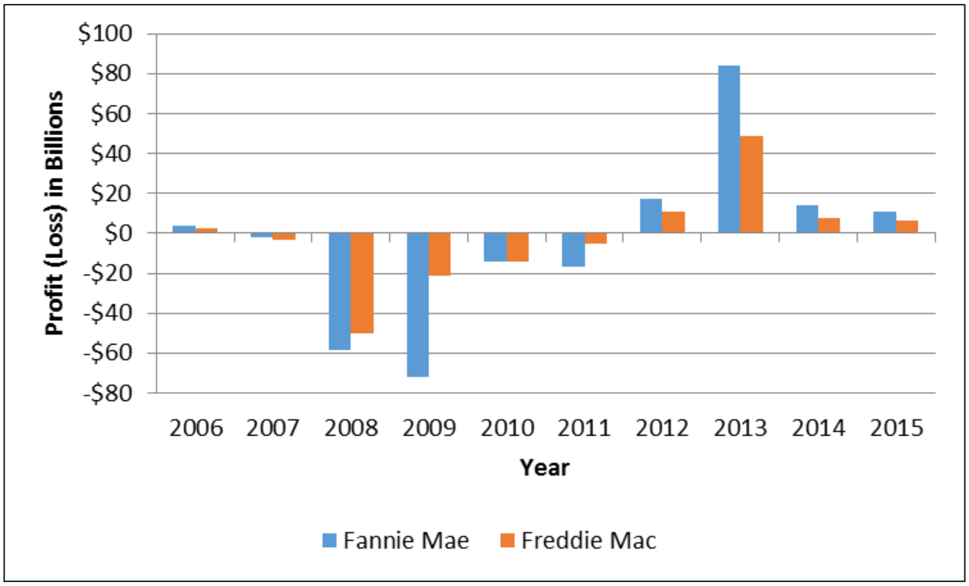
The GSEs' losses that started in late 2006 were notable because the GSEs had previously been consistently profitable. Prior to 2006, Fannie Mae had not reported a full-year loss since 1985, and Freddie Mac had never reported a full-year loss since it became publicly traded in 1989.

In examining the annual profits or losses (**Figure 2**), it is notable that both Fannie Mae and Freddie Mac were extremely profitable in 2013, reporting profits of nearly $84 billion and $49 billion, respectively. For both Fannie Mae and Freddie Mac, three factors largely created these profits. First, much of the money previously set aside to cover anticipated future losses (called loss reserves) was reversed, adding $14.7 billion in profits to Fannie Mae and $6.2 billion in

[6] This report measures profits or losses as "net profit (loss) attributable" to the GSEs as reported in their quarterly (10-Q) and annual (10-K) filings with the Securities and Exchange Commission. This measure excludes dividends paid to Treasury.

profits to Freddie Mac.[7] Second, certain financial assets that could be used only to pay their taxes ("deferred tax assets," such as low income tax credits) increased in value because Fannie Mae and Freddie Mac had become profitable in 2012. This increased Fannie Mae's profits by $45.4 billion and increased Freddie Mac's profits by $31.7 billion. Third, the GSEs negotiated agreements with certain companies that had sold them mortgages that were riskier than documented, increasing Fannie Mae's profits by $17.9 billion and Freddie Mac's profits by $5.6 billion.[8]

Figure 2. Fannie Mae and Freddie Mac: Annual Profit (Loss)



Source: Fannie Mae and Freddie Mac Form 10-K filings with the Securities and Exchange Commission, available at http://edgar.sec.gov/.

In 2013, these three factors combined to add $78.0 billion to Fannie Mae's bottom line and added $43.5 billion to Freddie Mac's bottom line. Without these three sources of income, Fannie Mae would have reported a profit of $6.0 billion, and Freddie Mac would have reported a profit of $5.2 billion. These factors will not contribute as much to the GSEs' profits going forward. In 2014 and 2015, both GSEs had very little in mortgage repurchase requests outstanding, and neither has deferred tax assets valuation allowance. In contrast, at the end of 2015, Fannie Mae had $28.3 billion in loss reserves, and Freddie Mac had $15.3 billion in loss reserves.

Despite being profitable for the year 2015, Freddie Mac reported a loss of $475 million in the third quarter. It attributed the loss to derivatives used to hedge interest rate risk.[9] Freddie Mac had sufficient reserves, so it was not forced to request additional financial support from Treasury. Freddie Mac's loss was the first quarterly loss for either GSE since the fourth quarter of 2011. Freddie Mac reported a first quarter 2016 net loss of $354 million, largely attributable to losses from derivatives.

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[7] Fannie Mae, *Federal National Mortgage Association Annual report on Form 10-K*, pp. 3, 80, 143, http://www.fanniemae.com/resources/file/ir/pdf/quarterly-annual-results/2013/10k_2013.pdf; Freddie Mac, *Federal Home Loan Mortgage Corporation Annual Report on Form 10-K*, pp. 135, 138, 231, http://www.freddiemac.com/investors/er/pdf/10k_022714.pdf.

[8] Companies settling disagreements with the GSEs over mortgage quality included Bank of America, Wells Fargo, CitiGroup, and Morgan Stanley.

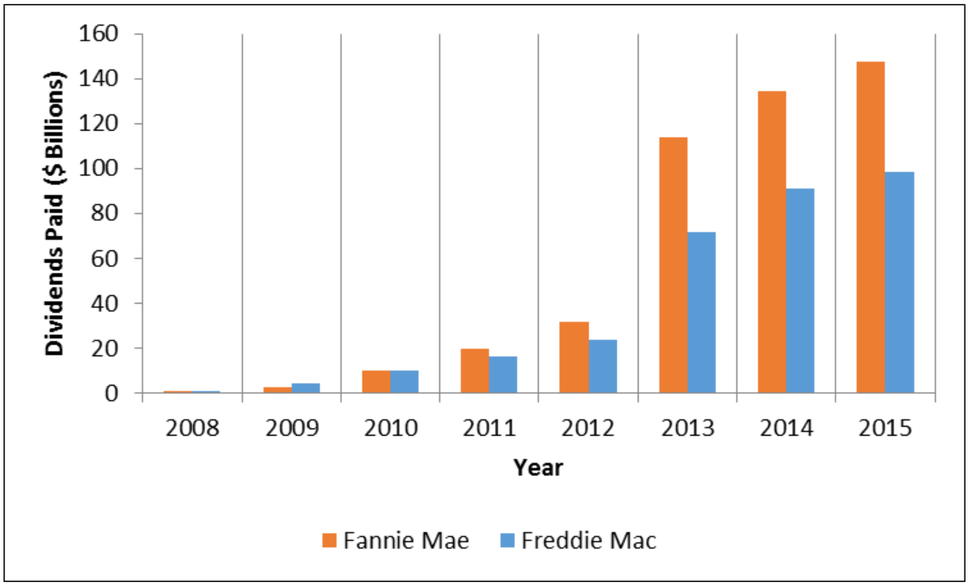
[9] For more details on Freddie Mac's losses, see CRS Insight IN10391, *Freddie Mac Announces Quarterly Loss, Does Not Require Additional Treasury Assistance*, by Sean M. Hoskins.

Fannie Mae has not reported quarterly losses in 2015 or 2016.

How Much Have the GSEs Paid to Treasury in Dividends?

To expedite reducing assets of the GSEs, Treasury, FHFA, and each of the GSEs amended the separate support contracts on August 17, 2012, so that each GSE pays Treasury all profits it earns each quarter. If there are no profits, there is no payment. Previously each GSE made quarterly payments on a 10% annual dividend on the senior preferred stock regardless of profits or losses earned in the quarter. As of the end of calendar year 2015, Fannie Mae had paid $148 billion in dividends, and Freddie Mac had paid $98 billion in dividends.[10]

Figure 3. Cumulative Dividends Paid to Treasury by Fannie Mae and Freddie Mac



Source: U. S. Federal Housing Finance Agency, *Treasury and Federal Reserve Purchase Programs for GSE and Mortgage-Related Securities: Data as of March 31, 2016*, http://www.fhfa.gov/DataTools/Downloads/Documents/Market-Data/Current-Market-Data-2016-03-31.pdf.

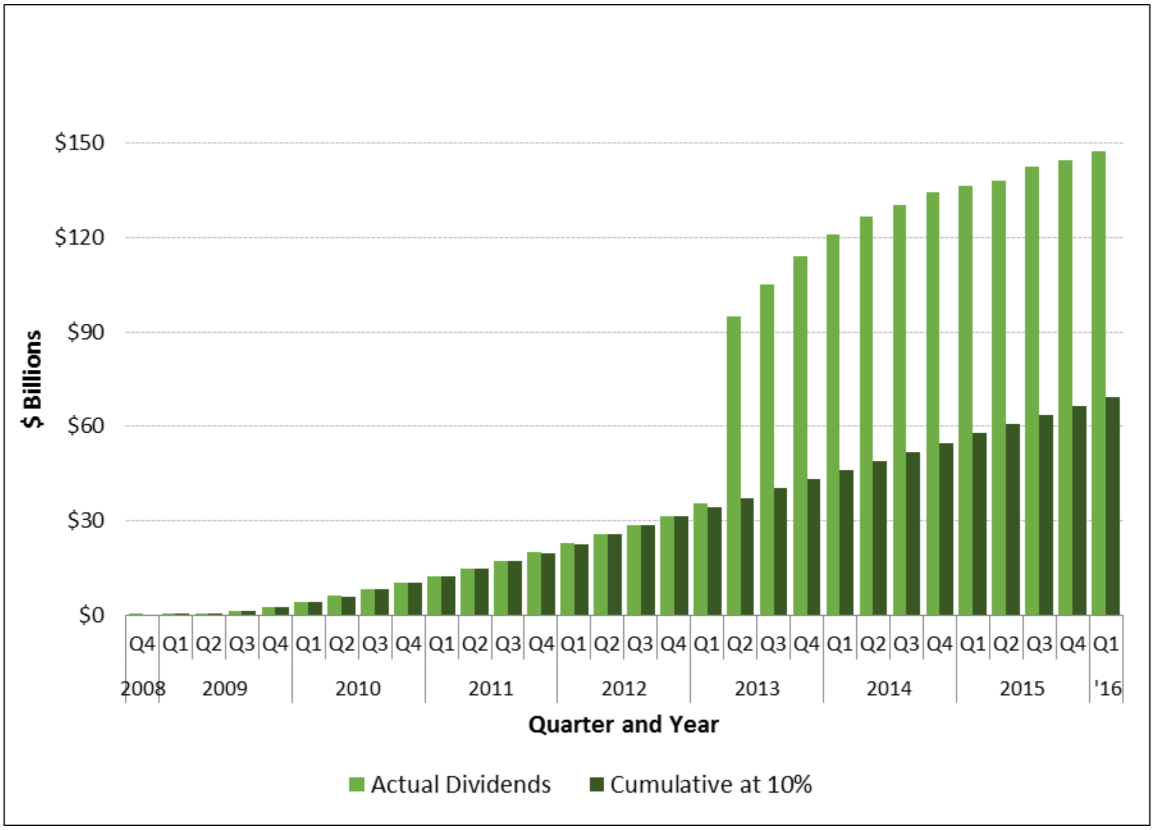
Has the Profit Sweep Increased the GSEs' Dividend Payments to Treasury?

Under the dividend profit sweep, Fannie Mae has paid dividends of $148 billion to Treasury, and Freddie Mac has paid dividends of $98 billion to Treasury. If the profit sweep[11] had not replaced paying dividends to Treasury at a 10% annual rate, Fannie Mae would have paid $69 billion and Freddie Mac would have paid $47 billion to Treasury in dividends. These dividend payments are illustrated in **Figure 4** for Fannie Mae and **Figure 5** for Freddie Mac.

[10] Department of Treasury, "Treasury Department Announces Further Steps to Expedite Wind Down of Fannie Mae and Freddie Mac," press release, August 17, 2012, http://www.treasury.gov/press-center/press-releases/Pages/tg1684.aspx. The press release contains links to the amended agreements. The dividends were accrued through the end of 2015, but the fourth quarter of 2015 dividends were not paid until the first quarter of 2016.

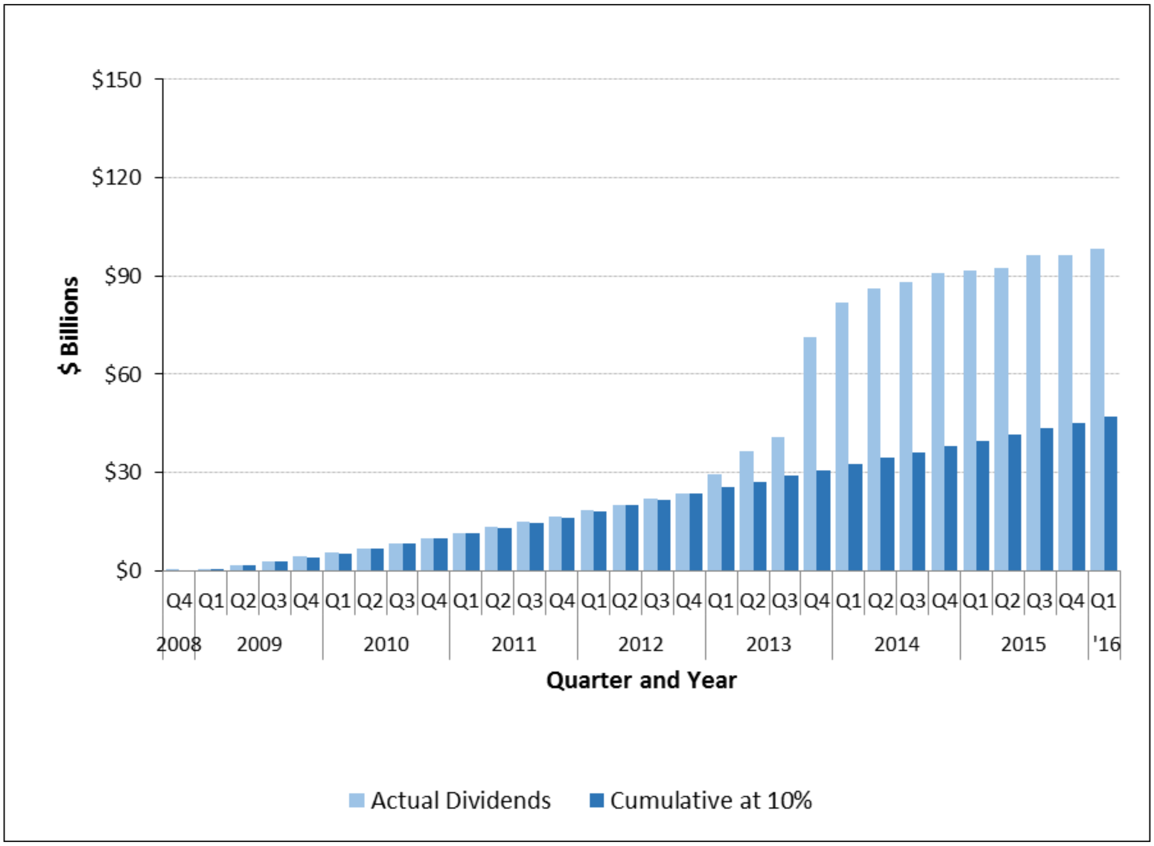
[11] The profit sweep was agreed to in the third set of amendments to the GSEs' original agreements with Treasury. The main change in the first two amendments was to raise maximum financial support that Treasury would provide.

Figure 4. Dividends Paid by Fannie Mae to Treasury



Source: U. S. Federal Housing Finance Agency, *Treasury and Federal Reserve Purchase Programs for GSE and Mortgage-Related Securities: Data as of March 31, 2016*, http://www.fhfa.gov/DataTools/Downloads/Documents/Market-Data/Current-Market-Data-2016-03-31.pdf.

Figure 5. Dividends Paid by Freddie Mac to Treasury



Source: U. S. Federal Housing Finance Agency, *Treasury and Federal Reserve Purchase Programs for GSE and Mortgage-Related Securities: Data as of March 31, 2016*, http://www.fhfa.gov/DataTools/Downloads/Documents/Market-Data/Current-Market-Data-2016-03-31.pdf.

What Is Happening to Fannie Mae's and Freddie Mac's Affordable Housing Initiatives?

The Housing and Economic Recovery Act of 2008 (HERA)[12] gives the FHFA authority to set housing goals for Fannie Mae and Freddie Mac and added a new group of goals called "duty to serve" to the previously existing affordable housing goals. The housing goals support affordable housing by requiring each of the GSEs to purchase a specified amount of mortgages that meet the goal.

There are single-family and multifamily goals. The single-family affordable housing benchmarks listed in **Table 1** are measured with reference to numbers of mortgages purchased.

A GSE has two ways to meet its single-family affordable housing goals. First, a GSE can meet a goal (e.g., the low-income families home purchase goal) by meeting or exceeding the benchmark percentage (e.g., at least 24% of mortgages purchased by a GSE must have allowed a low-income family to purchase a home). Second, a GSE can meet an affordable housing goal if its qualifying purchases meet or exceed the market as measured by data collected under the Home Mortgage

[12] P.L. 110-289.

Disclosure Act (HMDA).[13] For example, if a GSE's purchases of low-income family refinance mortgages were 10%, this would not meet the benchmark goal of 21% but could meet the alternative goal if less than 10% of the market were these mortgages. The single-family housing goals are the same for each GSE in percentage terms, but the numbers are likely to be different because Fannie Mae usually purchases more mortgages than Freddie Mac does.

Table 1. Single-Family Housing Goals, 2015-2017

Benchmark	Goal
Low-Income Families Home Purchase Goal	24%
Very Low-Income Home Purchase Goal	6%
Low-Income Areas Home Purchase Subgoal	14%
Low-Income Families Refinance Goal	21%

Source: Federal Housing Finance Agency, "2015-2017 Enterprise Housing Goals Final Rule," 80 *Federal Register* 53392-53433, September 3, 2015.

Note: Low-income families have incomes no greater than 80% of area median income, and very-low income families have incomes no greater than 50% of area median income.

Alternatively, Fannie Mae and Freddie Mac can meet their housing goals by purchasing mortgages to equal or exceed the market percentage.

FHFA also sets multifamily housing goals, which are listed in **Table 2**. These are defined in terms of rental units that are affordable at the specified income limits. For the purpose of these multifamily goals, small properties have between 5 and 50 units.

Table 2. Multifamily Housing Goals, 2015-2017

Benchmark	Numeric Unit Goal
Low-Income Units	300,000
Very Low-Income Units	60,000
Small Property: Low Income Units	6,000 (2015) 8,000 (2016) 10,000 (2017)

Source: Federal Housing Finance Agency, "2015-2017 Enterprise Housing Goals Final Rule," 80 *Federal Register* 53392-53433, September 3, 2015.

Notes: Both Fannie Mae and Freddie Mac have the same multifamily housing goals in terms of units.

HERA created a new duty to serve three underserved markets: manufactured housing, affordable housing preservation, and rural housing. FHFA has issued a proposed rule that would require Fannie Mae and Freddie Mac to submit drafts of an Underserved Markets Plan.[14] The comment period for the plan ended on March 18, 2016.

In addition, HERA requires the GSEs to contribute to the HOPE Reserve Fund, the Housing Trust Fund, and the Capital Magnet Fund. The HOPE Reserve Fund provides a financial cushion for the HOPE for Homeowners refinance program. The Housing Trust Fund provides grants to states to preserve and increase owner-occupied and rental housing for low- and very-low income

[13] P.L. 94-200.

[14] FHFA, "Enterprise Duty to Serve Underserved Markets, Proposed Rule," 80 *Federal Register* 79182-79222, December 18, 2015.

families. The Department of Housing and Urban Development (HUD) uses the Capital Magnet Fund to fund competitive block grants to states to attract private capital to develop, preserve, rehabilitate, or purchase affordable housing, economic development, and community service facilities for low-income, very low-income, and extremely low-income families. FHFA suspended these contributions when the GSEs entered conservatorship but reinstated the contributions effective in 2015.[15]

Each GSE is required to set aside 4.2 basis points (0.042%) of the unpaid principal balance of mortgages purchased in a year for this purpose. These funds are divided, with 25% going to the HOPE reserve fund to pay ongoing costs for the HOPE for homeowners program, 49% going to the Housing Trust Fund, and 26% to the Capital Magnet Fund.

For 2015, Fannie Mae contributed $54 million to the HOPE Reserve Fund, $106 million to the Housing Trust Fund, and $57 million to the Capital Magnet Fund.[16] Freddie Mac contributed $41.3 million to the HOPE Reserve Fund, $80.6 million to the Housing Trust Fund, and $43.4 million to the Capital Magnet Fund.[17]

What Is Happening to Executive Compensation?

In most corporations, executive compensation is set by the board of directors and management. For 2007, the year before they went into conservatorship, Fannie Mae reported that it paid its chief executive officer (CEO) $12.2 million,[18] and Freddie Mac reported paying its CEO $18 million.[19] Once the GSEs entered conservatorship, their senior management was replaced; the new managers received greatly reduced compensation.

HERA strengthened FHFA's regulatory oversight over executive compensation and so-called golden parachutes. The senior preferred stock agreement with FHFA and Treasury signed by each GSE requires the GSEs to get approval for new compensation agreements with executives. The Equity in Government Compensation Act of 2015[20] prevented FHFA from approving raises for the CEOs from $600,000 to $4 million.

Risks

What Risks Do Fannie Mae and Freddie Mac Face?

In any economic environment, Fannie Mae and Freddie Mac face the variety of risks that many other companies face. The GSEs purchase home mortgages. They package most mortgages into

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[15] This is a brief description of the programs. For more details, see CRS Report R40781, *The Housing Trust Fund: Background and Issues*, by Katie Jones; and CRS Report R44304, *Housing Issues in the 114th Congress*, coordinated by Katie Jones.

[16] Fannie Mae, *Form 10-K*, December 31, 2015, p. 202, http://fanniemae.com/resources/file/ir/pdf/quarterly-annual-results/2015/10k_2015.pdf#page=202.

[17] Freddie Mac, *Form -10K*, December 21, 2015, p. 170, http://api40.10kwizard.com/cgi/convert/pdf/FMCC-20160218-10K-20151231.pdf?ipage=10754197&xml=1&quest=1&rid=23&section=1&sequence=-1&pdf=1&dn=1#page=170.

[18] Fannie Mae, *Proxy Statement*, April 4, 2008, http://www.fanniemae.com/resources/file/ir/pdf/proxy-statements/2007proxy.pdf.

[19] Freddie Mac, *Proxy Statement*, April 29, 2008, http://www.freddiemac.com/investors/pdffiles/proxy_042908.pdf.

[20] P.L. 114-93.

MBSs and sell most MBS to institutional investors such as banks, hedge funds, central banks, and sovereign wealth funds.

The GSEs finance their portfolios of long-term (typically 30-year) mortgages with short-term borrowing (typically three months to five years). This financing strategy increases the GSEs' profits, because short-term borrowing is usually less expensive than longer-term loans. At the same time, it creates *interest rate risk*—that is, if short-term interest rates increase, profitability can be reduced or can even turn into losses. For example, if interest rates were to increase to 6%, mortgages at 5% would not be profitable.

The GSEs try to reduce the risk of rising interest rates with derivative contracts and by borrowing money for longer periods of time. Derivative contracts that hedge increased interest rates generally reduce the benefits if interest rates decline. In certain cases, these hedges can result in a GSE losing money instead of showing a profit. For example, Freddie Mac says this is what happened to it in the third quarter of 2015 and the first quarter of 2016.[21]

Under terms of the third amendments to their Treasury support agreements, Fannie Mae and Freddie Mac must keep their mortgage portfolios under a ceiling that declines each year until 2018, when each of their portfolios must be no more than $250 billion.

The GSEs are also subject to *credit risk*. The GSEs guarantee timely payment of principal and interest of the mortgages to MBS investors. Mortgage foreclosure rates climbed and losses became more severe after 2006. Nationally, these trends have reversed, reducing credit risk.

What Are Fannie Mae and Freddie Mac Doing to Reduce Risks?

Two major sources of losses for mortgage lenders in the aftermath of the 2008 housing bust[22] have been loans to borrowers with less than prime (subprime) credit and certain types of mortgages to borrowers with credit between prime and subprime (Alt-A).[23] At the end of 2015, Fannie Mae held $8.9 billion in private-label MBSs backed by subprime mortgages (down from $24.5 billion at the end of 2008) and held $7.7 billion in private-label MBSs backed by Alt-A mortgages (down from $27.9 billion at the end of 2008).[24]

Freddie Mac held $27.7 billion in private-label MBSs backed by subprime mortgages (down from $74.9 billion at the end of 2008) and $6.0 billion in private-label MBSs backed by Alt-A mortgages (down from $25.1 billion at the end of 2008).[25]

Since 2008, Fannie Mae and Freddie Mac have tightened their lending standards. For example, the average FICO score of a 2007 mortgage purchased by Freddie Mac was 703, in 2008 it was

[21] Freddie Mac, *Freddie Mac Reports Third Quarter 2015 Financial Results*, November 3, 2015, http://www.freddiemac.com/investors/er/pdf/2015er-3q15_release.pdf; and Freddie Mac, *Freddie Mac Reports First Quarter 2016 Results*, http://www.freddiemac.com/investors/er/pdf/2016er-1q16_release.pdf.

[22] Other major factors associated with high losses to mortgage lenders include loans that do not make any monthly repayment of principal and mortgages with relatively small down payments to borrowers with weak credit histories. See, for example, Fannie Mae, "*2015 Credit Supplement*," February 19, 2016, pp. 10-14, http://www.fanniemae.com/resources/file/ir/pdf/quarterly-annual-results/2015/q42015_credit_summary.pdf.

[23] Although the words *prime* and *subprime* suggest that a mortgage should be in one category or the other, the industry category of Alt-A is between prime and subprime.

[24] FHFA, *2014 Report to Congress*, June 15, 2015, p. 85, http://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FHFA_2014_Report_to_Congress.pdf.

[25] Ibid., p. 102.

722, and in the fourth quarter of 2015 it was 750.[26] Fannie Mae shows a similar increase in FICO scores. Approximately 76% of Fannie Mae's single-family book of business has been purchased in 2008 or more recently; the number for Freddie Mac is approximately 71%.

Shortly after the GSEs entered conservatorship, they increased loan loss reserves in anticipation of continuing losses. As the foreclosure rate and the average loss on a foreclosure have declined in recent years, the GSEs have been able to reduce their loss reserves.

The GSEs agreed with Treasury to reduce their capital reserves[27] from $3 billion starting in 2013 to zero starting in 2018. This shifts some risk to Treasury, which will provide additional financial support to a GSE if one's net worth becomes negative.

In 2012, FHFA directed Fannie Mae and Freddie Mac to develop ways to share their *credit risk* with the private sector, thereby reducing the risk to the government and taxpayers. The GSEs have worked together on this initiative but have implemented different programs.

FHFA categorizes mortgage losses as expected, unexpected, and catastrophic. Expected losses occur under normal economic conditions and are mainly due to foreclosures resulting from illness, unemployment, and divorce. Unexpected losses occur during stressful times, such as recessions or financial turmoil. Catastrophic losses occur only under very extreme economic circumstances.

The GSEs are reducing their credit risk by paying private sector investors to assume some of their expected and unexpected losses. The GSEs' risk sharing has covered the first 3% to 6% of the unpaid balance on the covered mortgages. The GSEs say that they have found that sharing catastrophic losses was more expensive than it was worth.

The GSEs have both issued bonds known as "pre-funded capital markets transactions," which Fannie Mae calls Connecticut Avenue Securities (CAS) and Freddie Mac calls Structured Agency Credit Risk securities (STACRs).[28] Investors purchase these bonds and are paid based on the performance of a reference pool of mortgages. If the pool performs well, the investors receive a higher return; if the pool performs poorly, the investors receive a lower return. In the case of extremely poor pool performance, investors could lose their investments.

Both GSEs have increased participation in more traditional insurance or guarantee agreements with mortgage insurers, re-insurers, or other companies. The counterparty pays the GSE in the event of a covered loss.

In August 2012, the GSEs agreed to reduce their portfolios to $250 billion each by 2018. In 2008, Fannie Mae held $792 billion in mortgage assets (MBS and mortgages), and Freddie Mac held

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[26] Fannie Mae, *2015 Credit Supplement*, February 19, 2016, p. 6, http://www.fanniemae.com/resources/file/ir/pdf/quarterly-annual-results/2015/q42015_credit_summary.pdf; and Freddie Mac, *Second Quarter 2012 Financial Results Supplement*, August 7, 2012, p. 26, http://www.freddiemac.com/investors/er/pdf/supplement_2q12.pdf and *Fourth Quarter 2015 Financial Results Supplement,* February 19, 2016, p. 15, http://www.freddiemac.com/investors/er/pdf/supplement_4q15.pdf. FICO is a company that provides credit scoring services to lenders.

[27] Capital reserves are funds set aside to finance large or long-term projects as opposed to reserves set aside for losses on delinquent mortgages.

[28] Wanda DeLeo, Deputy Director, Division of Conservatorship, FHFA, *Prepared Testimony on Housing Finance Reform: Fundamentals of Transferring Credit Risk in a Future Housing Finance System*, December 10, 2013, http://www.fhfa.gov/Media/PublicAffairs/Pages/Housing-Finance-Reform-Fundamentals-of-Transferring-Credit-Risk-in-a-Future-Housing-Finance-System.aspx; and FHFA, *An Update on the Common Securitization Platform, September 15, 2015,* http://www.fhfa.gov/AboutUs/Reports/ReportDocuments/CSP-Update-Final-9-15-2015.pdf.

$805 billion in mortgage assets.[29] These smaller portfolios are financed with correspondingly less borrowing and reduce *interest rate risk*.

Like all other businesses, the GSEs have *operational risk* due to the failure of internal controls. FHFA has directed the GSEs to reduce operational risk by improving their information technology, data quality, and internal controls.

As financial corporations, the GSEs are also subject to *model risk*, or the risk that their models (especially credit models) are not accurate. FHFA has directed the GSEs to update their financial models to reflect changing conditions.

What Risks Do Fannie Mae and Freddie Mac Create for the U.S. Government?

If either Fannie Mae or Freddie Mac has quarterly losses that exceed their reserves and capital, they would remain solvent by selling additional preferred stock to Treasury. Treasury's contract with Fannie Mae has $117.6 billion remaining that could be drawn down to remain solvent,[30] and Freddie Mac has $140.5 billion in potential Treasury support.[31]

If either GSE were to draw down all of its remaining Treasury support, it is possible that it would be dissolved in a process known as receivership. In receivership, the usual priority of claims on remaining assets is administrative expenses of the receivership, senior and general debt, subordinated debt, and stock.[32] This would seem to place the MBSs with their guarantee at a fairly senior position, followed by GSE bonds, which would be ahead of the government's senior preferred stock, which would be ahead of all other stockholders. It is not clear how the mortgage market would function if one or both GSEs were to go into receivership.

If a GSE were unable to perform on the timely payment guarantee because it went into receivership, the value of the outstanding MBSs would depend on the payment of the underlying mortgages, the rules of receivership, and any action the government might take (or not take) to support the MBSs. On the one hand, the value of its MBSs could decline, because the value of the GSE's guarantee of timely payment of the MBSs could be called into question. On the other hand, if the government were to step in and back the MBSs, the value of the MBSs could increase due to the stronger guarantee.

The eventual value of the bonds would depend on the cause of the receivership and the details of the liquidation process. For example, if mortgage defaults and losses were to increase, the assets available for creditors would decrease.

If the GSEs were put into receivership as part of housing finance reform, the value of the senior preferred stock would depend on the details of the new law.

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[29] FHFA, *2014 Report to Congress*, pp. 82, 99.

[30] Fannie Mae, *Fannie Mae Reports Net Income of 11.0 Billion and Comprehensive Income of $10.6 Billion for 2015*, February 19, 2016, http://fanniemae.com/resources/file/ir/pdf/quarterly-annual-results/2015/q42015_release.pdf.

[31] Freddie Mac, *Freddie Mac Reports Net Income of $6.4 Billion for Full-Year 2015; Comprehensive Income of $5.8 Billion*, February 18, 2016, http://www.freddiemac.com/investors/er/pdf/2015er-4q15_release.pdf.

[32] CRS Report RL34657, *Financial Institution Insolvency: Federal Authority over Fannie Mae, Freddie Mac, and Depository Institutions*, by David H. Carpenter and M. Maureen Murphy, contains more information on this subject.

What Is Common Securitization Solutions?

Fannie Mae and Freddie Mac created Common Securitization Solutions (CSS) as a joint venture to standardize the process of issuing and managing MBSs.[33] FHFA determined that the GSEs' computer operations needed to be modernized and that it would be more efficient to create one system for the two enterprises, as the MBSs issued by Fannie Mae are similar to, but not identical to, those issued by Freddie Mac. Due to technical differences, if Fannie Mae and Freddie Mac were to purchase identical mortgages and pool them into their MBSs, Freddie Mac's would sell for less. This difference led to an additional goal to standardize the two enterprises' MBSs.

The common securitization platform (CSP) is a large part of this effort and is planned for two releases. Only Freddie Mac will use CSP Release 1, which will perform data acceptance, issuance support, and bond administration functions for relatively straightforward types of MBSs. Both Fannie Mae and Freddie Mac will use Release 2 to perform data acceptance, issuance support, disclosure, and bond administration activities for a wider range of MBSs. In the longer run, CSP will be available to other entities. Release 1 is scheduled for 2016 and Release 2 for 2018.[34]

The common MBS is a long-range goal.

What Has Conservatorship Done to Stockholders and Other Stakeholders?

Common stockholders own 100% of the GSEs. While a company is in conservatorship, the powers of common stockholders, who formerly elected the boards of directors and approved certain enterprise actions, are transferred to the conservator—in this case, FHFA. As part of the support agreements with Treasury, each GSE issued Treasury long-term options (called warrants) to purchase 80% of each GSE at a nominal cost. If Treasury were to exercise these warrants, current common stockholders would own 20% of the enterprises. Arguably, 20% of a healthy enterprise is worth more than 100% of GSEs whose liabilities exceed their assets.

On August 17, 2012, Treasury signed new agreements with Fannie Mae and Freddie Mac changing the quarterly dividend to be all the profits earned in the quarter. If no profits are earned, no dividend is paid. Treasury said that the purpose of the change was to wind down the GSEs and benefit taxpayers.[35] Without the ability to retain earnings, the GSEs cannot accumulate the capital required by law to return to stockholder control.

Stockholders seeking to regain control of the GSEs have sued the federal government over this new agreement.[36]

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[33] For more information on Common Securitization Solutions, see CRS Report R44506, *FHFA's Administrative Reform of Fannie Mae, Freddie Mac, and the Housing Finance System*, by Sean M. Hoskins and FHFA, An Update on the Common Securitization Platform, September 15, 2015, http://www.fhfa.gov/AboutUs/Reports/ReportDocuments/CSP-Update-Final-9-15-2015.pdf.

[34] FHFA, *2016 Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions*, December 17, 2015, http://www.fhfa.gov/AboutUs/Reports/ReportDocuments/CSP-Update-Final-9-15-2015.pdf.

[35] Department of Treasury, "Treasury Department Announces Further Steps to Expedite Wind Down of Fannie Mae and Freddie Mac," press release, August 12, 2012, http://www.treasury.gov/press-center/press-releases/Pages/tg1684.aspx.

[36] John Carney, "Fannie and Freddie Shareholders Suffer Stinging Legal Setbacks," *Wall Street Journal*, March 7, 2016, http://www.wsj.com/articles/fannie-and-freddie-shareholders-suffer-stinging-legal-setbacks-1457286903.

Future

How Can Fannie Mae and Freddie Mac Leave Conservatorship?

There are two ways that Fannie Mae and Freddie Mac could exit their conservatorships without congressional action. First, if they become financially viable, they could return to stockholder control. This is unlikely for the reasons discussed in "Could the GSEs Return to Stockholder Control?" below.

If they did become financially viable, it appears that Treasury and FHFA would have to approve the GSEs leaving conservatorship. One issue is that as long as the profit sweep remains in place, the companies have little value. And what value there is can be captured by the government by using its warrants to purchase 80% ownership of each GSE.

Section 702 of the Consolidated Appropriations Act, 2016,[37] prohibits Treasury from disposing of its senior preferred stock in the GSEs without enabling legislation before January 1, 2018. In effect, this requires Congress to approve any major change to the GSEs' status.

In addition, as part of the support agreements, the GSEs each gave Treasury warrants (long-term options) to purchase 79.9% of each at a nominal cost. On other occasions when the federal government has provided significant financial support to companies, such as Chrysler and General Motors, Treasury has auctioned off similar warrants at a profit.[38]

Second, if they are unable to become financially viable, they could enter receivership. There is no legal reason that one GSE could not go into receivership and the other GSE return to stockholder control, although this might present some policy questions about the desirability of having a monopoly GSE.

Could the GSEs Return to Stockholder Control?

It appears to be impossible for the GSEs to return to stockholder control without congressional or executive action. So long as all profits are swept into the Treasury, there is little reason for other investors to purchase any GSE stock.

In addition, under terms of Treasury's support agreement, the GSEs must reduce their capital reserves (funds set aside against future expenses). These capital reserves were $3 billion each in 2013 and are to decline by $600 million each year until they reach zero on January 1, 2018. Without any capital reserves, which are used for large, anticipated expenses, the GSEs would not be financially viable.

In particular, any financial intermediary, such as Fannie Mae and Freddie Mac, must keep reserves against losses. In the case of Fannie Mae and Freddie Mac, they need to set aside reserves to cover losses from foreclosures and other events. Currently, the profit sweep prevents them from accumulating capital.

By law, the GSEs have two capital requirements: One is risk based, and the other is a minimum requirement. At the end of 2014, Fannie Mae had a deficit of $142 billion in minimum capital,[39]

[37] P.L. 114-113.

[38] As far as is known, the company that issued the warrants to Treasury has always won the auctions to purchase the warrants.

[39] FHFA, *2014 Report to Congress,* p. 90, http://www.fhfa.gov/AboutUs/Reports/ReportDocuments/

and Freddie Mac had a deficit of $92 billion in minimum capital.[40] The last time risk-based capital requirements were calculated—in 2007, prior to conservatorship—Fannie Mae needed $25 billion, and Freddie Mac needed $14 billion.

There are multiple shareholder lawsuits seeking to reverse certain of FHFA's actions as conservator.[41]

What Are Some of Congress's Options for Restructuring the GSEs?

Going forward, Congress has many options for reorganizing Fannie Mae and Freddie Mac. If Congress were to decide to keep and reorganize Fannie Mae and Freddie Mac, options include (but are not limited to) the following:

- Congress could take no action.
- Congress could repeal the GSEs' charters and allow the private sector to replace them to the extent that the private sector finds this attractive.
- Congress could make Fannie Mae and Freddie Mac part of the government. Both GSEs were originally government corporations. They could return to being government corporations or become part of an agency such as the Department of Housing and Urban Development.
- Congress could repeal the GSEs' charters and create new entities (perhaps new GSEs) to assume some or all of their role in the mortgage market.

For additional information, see CRS Report R40800, *GSEs and the Government's Role in Housing Finance: Issues for the 113th Congress*, by N. Eric Weiss and CRS Report R41822, *Proposals to Reform Fannie Mae and Freddie Mac in the 112th Congress*, by N. Eric Weiss.

Context

Why Were Fannie Mae and Freddie Mac Created?

Prior to the development of the modern secondary mortgage market, mortgage markets were essentially local, and there were significant differences across the nation in mortgage rates and relatively large fluctuations in lending activity. Primary lenders had to balance their lending practices with their deposits received, which led to severe credit shortages during economic downturns, when savings accounts were depleted by withdrawals.[42] This shortage was exacerbated due to the concentration of major money centers in areas like Chicago and New York, far from many who needed home loans. There was no efficient way to move funds from these areas where mortgage money was available to other areas, such as California, where it was in relatively short supply. In effect, this amounted to a geographic barrier that prevented the law

FHFA_2014_Report_to_Congress.pdf.

[40] Ibid., p. 107.

[41] For more information on these court cases, see CRS Legal Sidebar WSLG1117, *Federal District Court Dismisses Takings Clause Class Action Involving Treasury's Investments in Fannie Mae and Freddie Mac*, by David H. Carpenter.

[42] Michael P. Malloy, *The Regulation of Banking: Cases and Materials on Depository Institutions and Their Regulators*, (Cincinnati: Anderson Publishing Company, 1992), p. 381.

of supply and demand from operating on a national level in the home loan market.[43] The secondary mortgage market combined these many regional mortgage markets into a single national market that draws financing from around the world.

To encourage improvement in housing standards and conditions and to provide a system of mutual mortgage insurance, Congress passed, and President Franklin D. Roosevelt signed into law, the National Housing Act in 1934.[44] Title III of the National Housing Act established national mortgage associations, giving rise to the creation of the Federal National Mortgage Association, which now uses the name Fannie Mae. In its original form, Fannie Mae was a federal government agency that was chartered to support government-backed mortgages and carry out some government subsidy functions. In 1954, Congress re-chartered Fannie Mae as a mixed government and private-sector entity, with a clearly delineated separation between its market-oriented (i.e., secondary mortgage trading) and governmental (i.e., special assistance and managing and liquidating government-held mortgages) functions.[45] In 1968, Congress split the firm into two distinct organizations, with the secondary market arm retaining the Fannie Mae name and the government functions arm taking the name Ginnie Mae, short for the Government National Mortgage Association.[46] The partitioning legislation re-chartered Fannie Mae as a GSE to become completely privately owned with no federal funding. Fannie Mae completed this transition in 1970.

In 1970, Congress enacted the Emergency Home Finance Act,[47] which authorized Fannie Mae to buy conventional mortgages. Fannie Mae bought most of the mortgages from mortgage bankers. Savings and loans, the other major source of mortgage money, were restricted to holding mortgages and were generally unable to work with Fannie Mae. To facilitate secondary market trading of conventional mortgages for savings and loan associations, the act created the Federal Home Loan Mortgage Corporation, which now uses the name Freddie Mac, as a wholly owned subsidiary of the Federal Home Loan Bank System (FHLBS). In 1989, Congress re-chartered Freddie Mac so that its shares could trade on the New York Stock Exchange, in the same manner as Fannie Mae's.[48] The 1989 act also did away with the separate missions of Fannie Mae and Freddie Mac, with the result that today the two enterprises have similar characteristics.

Fannie Mae and Freddie Mac purchase mortgages that lenders have already made to homeowners. These mortgages must meet Fannie Mae's and Freddie Mac's standards and not exceed the conforming loan limit.[49] These mortgages are pooled into MBSs, which are guaranteed by the issuing GSE, and either sold to investors or kept by the GSE as an investment.

What Is Conservatorship?

Conservatorship of Fannie Mae and Freddie Mac involves FHFA taking control of the GSEs. As conservator, the powers of the board of directors, officers, and shareholders are transferred to FHFA. A conservator can cancel certain contracts, but FHFA elected not to do so in 2008.

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[43] See Carrie Stradley Lavargna, *Government Sponsored Enterprises are "Too Big to Fail:" Balancing Public and Private Interests*, 44 Hastings L.J. 991, 998 (1993).

[44] 48 Stat. 1246.

[45] The National Housing Act of 1954, P.L. 83-560, Title II.

[46] The Housing and Urban Development Act of 1968, P.L. 90-448.

[47] P.L. 91-351.

[48] Financial Institutions Reform, Recovery, and Enforcement Act of 1989, P.L. 101-73.

[49] See CRS Report RS22172, *The Conforming Loan Limit*, by N. Eric Weiss and Sean M. Hoskins.

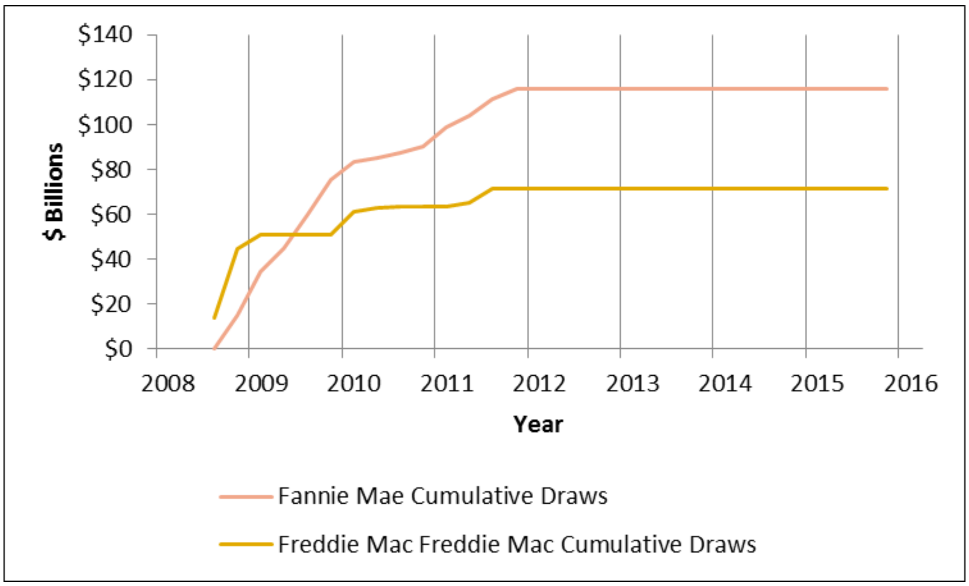
Conservatorship is authorized by HERA.[50] One goal of conservatorship[51] is to preserve each GSE's assets and return it to sound financial condition, which would allow the conservatorship to be ended.

How Much Support Has Treasury Extended?

Since the third quarter of 2008, FHFA, as conservator of the GSEs, has asked Treasury for a total of $116.1 billion to increase Fannie Mae's assets to offset its liabilities, and a total of $71.3 billion for Freddie Mac.[52] Neither GSE has required Treasury's support since the second quarter of 2012.

Treasury support supports the GSEs purchasing new senior preferred stock. When they went into conservatorship, each of the GSEs paid Treasury $1 billion of senior preferred stock for the promise of future financial support. This stock (and that purchased subsequently) is senior to (has priority over) all other common and preferred stock; it is the only stock currently receiving dividends.

Figure 6. Treasury Support for Fannie Mae and Freddie Mac



Source: U. S. Federal Housing Finance Agency, *Treasury and Federal Reserve Purchase Programs for GSE and Mortgage-Related Securities: Data as of March 31, 2016*, http://www.fhfa.gov/DataTools/Downloads/Documents/Market-Data/Current-Market-Data-2016-03-31.pdf.

Notes: Treasury holds senior preferred stock in each of the GSEs valued at the amount of support provided—plus $1 billion each paid Treasury for its support agreements.

[50] P.L. 110-289.

[51] Other goals include keeping the GSEs operating to support the mortgage market and homeownership.

[52] FHFA, "Treasury and Federal Reserve Purchase Programs for GSE and Mortgage-Related Securities," data as of March 31, 2016, http://www.fhfa.gov/DataTools/Downloads/Documents/Market-Data/Current-Market-Data-2016-03-31.pdf.

What Recent Legislation Has Affected the GSEs?

Since the 110th Congress, two continuing resolutions and seven other bills have been signed into law that have had significant impacts on Fannie Mae and Freddie Mac. (See **Table 3**.)

Table 3. Public Laws Specifically Affecting GSEs

(110th-114th Congresses)

P.L. Number	Date Enacted	Title	Summary
110th Congress			
P.L. 110-185	February 13, 2008	Economic Stimulus Act of 2008 (ESA) §201.	Increased conforming loan limits in high-cost areas for mortgages originated between July 1, 2007, and December 31, 2008.
P.L. 110-289	July 30, 2008	Housing and Economic Recovery Act of 2008 (HERA)	Created Federal Housing Finance Agency to replace Office of Federal Housing Enterprise Oversight and the Department of Housing and Urban Development as combined GSE regulator. Made high-cost area conforming loan limits permanent but at lower amounts.
111th Congress			
P.L. 111-5	February 7, 2009	American Recovery and Reinvestment Act of 2009 (ARRA) §1203.	Extended 2008 high-cost conforming loan limits to 2009 mortgages.
P.L. 111-88	October 30, 2009	Department of Interior Appropriations Act, 2010 §104.	Extended 2008 high-cost conforming loan limits for FY2010.
P.L. 111-242	September 30, 2010	Continuing Appropriations Act, 2011 §146.	Extended 2008 high-cost conforming loan limits for FY2011.
112th Congress			
P.L. 112-78	December 23, 2011	Temporary Payroll Tax Cut Continuation Act of 2011 §401.	Requires Fannie Mae and Freddie Mac to increase their guarantee fees by 10 basis points. The funds raised are to be deposited in the Treasury.
P.L. 112-105	April 4, 2012	Stop Trading on Congressional Knowledge Act of 2012 §16.	Prohibition on bonuses to executives of Fannie Mae and Freddie Mac while they are in conservatorship.
114th Congress			
P.L. 114-93	November 25, 2015	Equity in Government Compensation Act of 2015, §3.	Limits salaries of chief executive officers of Fannie Mae and Freddie Mac.
P.L. 114-113	December 18, 2015	Consolidated Appropriations Act, 2016 §702	Restricts Treasury's ability to sell Fannie Mae and Freddie Mac senior preferred stock.

Source: Congressional Research Service.

What Happened?

Why Did FHFA Place Fannie Mae and Freddie Mac Under Conservatorship?

In September 2008, as regulator of Fannie Mae and Freddie Mac, FHFA announced that Fannie Mae and Freddie Mac agreed to voluntary conservatorship because of their deteriorating financial positions and the "critical importance" that each company has to the continued functioning of the residential financial markets.[53]

FHFA has said that subsequent audits of the GSEs determined that their financial positions were weaker than previously thought and that the GSEs were unlikely to survive without conservatorship. FHFA cited previous public statements that the GSEs needed to increase their capital and needed to strengthen management controls over operations.

What Had Congress Done Previously to Aid the GSEs?

Prior to their conservatorship in 2008, Congress had assisted GSEs that were in financial difficulty. When Fannie Mae was losing significant amounts of money in 1982, Congress passed the Miscellaneous Revenue Act of 1982 that provided tax benefits for Fannie Mae.[54] The Farm Credit System, another GSE, was aided by the Agricultural Credit Act of 1987, which authorized the issuance of $4 billion in bonds to support system members.[55]

Section 1117 of HERA authorized the Treasury to purchase any amount of GSE securities—debt or equity—if necessary to provide stability to financial markets, prevent disruptions in the availability of mortgage credit, or protect the taxpayer.[56] This permitted the federal government to purchase the debt securities (bonds and MBSs) that the firms were unable to sell elsewhere and purchase stock. These contracts sent a signal to the markets that the Treasury was prepared to intervene rather than let either GSE fail. This authority expired on December 31, 2009.

What Other Actions Has the Federal Government Taken to Address the Financial Condition of the GSEs?

Conservatorship and the support agreements with Treasury are not the only actions that the federal government took to support Fannie Mae and Freddie Mac.

On July 15, 2008, the SEC issued an emergency order restricting short selling in the stock of 19 financial institutions, including Fannie and Freddie.[57] The SEC acted to prevent the possibility that false rumors could drive share prices down and cause the market to lose confidence, thereby cutting off the firms' access to credit markets, as happened to Bear Stearns in March 2008. The order restricting short sales of Fannie Mae and Freddie Mac stock was renewed on July 29, 2008, and expired on August 12, 2008.

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[53] FHFA, "Statement of FHFA Director James B. Lockhart," September 7, 2008, http://www.fhfa.gov/webfiles/23/FHFAStatement9708final.pdf. See, also, Henry M. Paulson Jr., *On the Brink: Inside the Race to Stop the Collapse of the Global Financial System* (New York: Business Plus, 2010).

[54] Miscellaneous Revenue Act of 1982, P.L. 97-362.

[55] Agricultural Credit Act of 1987, P.L. 100-233.

[56] Housing and Economic Recovery Act of 2008, P.L. 110-289, §117.

[57] Securities and Exchange Commission, "Emergency Order Pursuant to Section 12(k)(2) of the Securities Exchange Act of 1934 Taking Temporary Action to Respond to Market Developments," http://www.sec.gov/rules/other/2008/34-58166.pdf.

The government has also taken steps to prepare for possible future support for the GSEs. On July 13, 2008, the Federal Reserve Board of Governors granted the New York Fed the authority to lend directly to the GSEs.[58] Section 1118 of HERA requires the new GSE regulator to consult with the Fed to ensure financial market stability.

In addition to the Fed's existing general authority to be a lender of last resort, the GSEs' charters give the GSEs a special relationship to the nation's central bank.[59] The Fed uses the GSEs' bonds purchased on the secondary market for open market operations.[60] These bond purchases could indirectly help the GSEs by adding to the demand for their debt and increasing their liquidity.

The Fed announced that it would conduct a special program to purchase GSE debt and MBSs in calendar year 2009 and the first quarter of 2010.[61] Under this program, the Fed purchased more than $1 trillion of GSE debt and GSE-issued MBSs.

In programs that started in September 2008 and ended in March 2010, the Fed and Treasury together purchased more than $1.1 trillion in MBSs.[62] On September 21, 2011, the Fed decided to begin reinvesting MBS principal repayments in other MBSs.[63] As of March 6, 2016, the Fed held $1.4 trillion of Fannie Mae's and Freddie Mac's MBSs.[64]

Glossary

Alt-A mortgage	Either a mortgage made to a borrower with a credit history between prime and subprime, or a mortgage made to a prime borrower with less than traditional documentation.
ARRA	American Recovery and Reinvestment Act of 2009, P.L. 111-5.
ESA	Economic Stimulus Act of 2008, P.L. 110-185.
FHFA	Federal Housing Finance Agency. Regulator of housing GSEs for mission, safety, and soundness. Created by merger of existing government agencies, including OFHEO and HUD staff (who formerly had mission regulatory authority).
GSE	Government-sponsored enterprise.
HERA	Housing and Economic Recovery Act of 2008, P.L. 110-289.
MBSs	Mortgage-backed securities. A pool of mortgages sold to institutional investors.
Prime mortgage	A mortgage made to a borrower with excellent credit history.

[58] Federal Reserve Board of Governors, "Authority to Lend to Fannie Mae and Freddie Mac," press release, July 13, 2008, http://www.federalreserve.gov/newsevents/press/other/20080713a.htm.

[59] The Fed's lender-of-last-resort authority is delineated at 12 U.S.C. §343. Fannie Mae's charter is at 12 U.S.C. §1716b et seq., and Freddie Mac's charter is at 12 U.S.C. §1401.

[60] 12 U.S.C. 347c.

[61] Federal Reserve Bank of New York, "FAQs: MBS Purchase Program," August 20, 2010, http://www.ny.frb.org/markets/mbs_faq.html.

[62] FHFA, "Treasury and Federal Reserve Purchase Programs for GSE and Mortgage-Related Securities: Data as of March 31, 2016," http://www.fhfa.gov/DataTools/Downloads/Documents/Market-Data/Current-Market-Data-2016-03-31.pdf.

[63] Federal Reserve Bank of New York, "FAQs: Reinvestments of Principal Payments on Agency Securities into Agency MBS," September 26, 2011, http://www.newyorkfed.org/markets/ambs/ambs_faq.html.

[64] Federal Reserve Bank of New York, "System Open Market Account Holdings: Securities Holdings as of July 31, 2013," http://www.newyorkfed.org/markets/soma/sysopen_accholdings.html.

Senior preferred stock	This stock is senior to (has priority over) all other common and preferred stock; it is the only GSE stock currently receiving dividends.
Subprime mortgage	A mortgage made to a borrower with a blemished credit history.

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